



DEPARTMENT OF THE ARMY  
U.S. Army Corps of Engineers  
WASHINGTON, D.C. 20314-1000

REPLY TO  
ATTENTION OF:

03 JUN 1997

CEMP-ZA (415-1-16)

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: USACE Construction Supervision and Administration (S&A)  
Management Policy for DoD Construction Support

1. The purpose of this memorandum is to highlight information about selected policies and procedures for U.S. Army Corps of Engineers (USACE) construction S&A management.
2. The Military Construction Codification Act along with USACE regulations establish policies and procedures for management of construction S&A accounts at USACE districts. These policies apply to all USACE organizational elements performing construction work for military customers. They apply to *direct funded work* such as MILCON as well as *reimbursable construction management work* such as that done directly by districts for military installations.
3. Construction S&A represents activities performed and costs incurred for what are generally *government construction contract management* responsibilities. Normally, for DOD construction support, construction S&A is charged on a *flat rate* basis, conforming to the general type of work (e.g., MILCON, O&M, Environmental Restoration) and *location of work* (e.g., CONUS or OCONUS). Other non-military customers (e.g., Department of Energy), and some special military projects (e.g., Non-Appropriated Funded work), are charged on a *cost-reimbursable* basis determined by the level of effort mutually agreed upon between USACE and the customer.
4. Information on current S&A flat rates, annual re-evaluation of flat rates, key assumptions, and advantages to customers of S&A flat rates is presented in enclosure 1. Note that S&A flat rates apply only to *construction contract management*, and not to design management, study management, management of real estate services, etc. Additional information on construction S&A is provided in the 1996 booklet entitled *What is Construction S&A? How is Construction S&A charged? Is it a good value? And other things we want you to know?* (Note: this green booklet is available to USACE customers and USACE personnel either from the district construction staff or may be accessed on the HQUSACE Military Construction Division Homepage at <http://www.hq.usace.army.mil/cemp/c/cemp-c.htm>).

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5. Management of the construction S&A flat rate policies is centralized at HQUSACE Military Programs Directorate, Construction Division(CEMP-C). Specific S&A flat rate account management procedures are prescribed in Chapter 3 of ER 415-1-16. Conformance to these established fiscal policies and procedures, including conformance to the established S&A flat rates, is fundamental to overall fiscal integrity and effective management of the S&A accounts. *Accordingly, deviation from the established flat rates is not normally permitted.*

6. Any request for a deviation to provide construction management services using "at cost" S&A charges shall be a rare exception, and submitted in advance by the performing district through their parent MSC to HQUSACE, ATTN: CEMP-C. Districts must avoid making any commitments to their customers in advance of a decision on the waiver request by HQUSACE. Any requested waiver must be based principally on significant differences between the types and amounts of construction contract management services proposed and those normally provided under flat rate S&A services. Request for an "at cost" rate in an attempt to maintain a project's cost within the programmed or approved amount is not authorized. If a waiver from the established flat rates is justified and "at cost" S&A services are approved by HQUSACE, appropriate detailed accounting and management actions must be taken to ensure that the "at cost" managed project is not subsidized in any manner by any flat rate managed projects. All S&A cost overruns or underruns during actual management of "at cost" projects must be charged to and paid by the customer.

7. Mutual understanding of responsibilities, roles, and procedures is important to effective teamwork among installation customers, USACE managers, and construction contractors. The information contained in this memorandum is intended to foster a better understanding of S&A management policies so that this partnership can deliver the quality construction needed by customers and commanders at all levels.

8. Point of contact for additional information is Mr. Jim Lovo (202-761-4804) or Mr. Phil Blount (202-761-1267).

FOR THE COMMANDER:



Encl

PHILLIP R. ANDERSON  
Brigadier General, USA  
Director of Military Programs

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Management Policy for Military Programs - KEY INFORMATION

1. Purpose. To highlight key policies and procedures for construction S&A management.

2. References:

a. AR 415-15, Military Construction Army.

b. ER 415-1-16, Construction Fiscal Management.

3. S&A Flat Rate Advantages to Customers:

- For military work, construction S&A flat rates reflect an average cost for each category of construction being managed.

- Flat rates provides military customers the important advantage of an *assured price* for the construction contract management services being provided by USACE for that project.

- If problems develop during management of the construction contract, *additional staffing or expertise* can be brought to bear on the problem immediately without additional customer funding.

- Since flat rate construction S&A services are not directly tied to funds received for the individual project, there is an ability for USACE construction managers to *plan and staff the job before construction starts*, and remain on the job after initial completion, without additional customer funding.

- S&A flat rates greatly *reduce Corps administrative accounting burden* by eliminating the need to account for precise management costs associated managing construction for each project/contract.

*The U.S. Post Office uses this same flat rate concept. Each class of mail is charged the average cost for that class, but the cost for delivering each letter is not tracked or charged to customers.*

4. S&A Rate Adjustments.

- Construction S&A rates, expenses, and income are reviewed annually, and adjusted as needed. Changes in construction workload by district location and total volume of current and future work are primary factors affecting construction S&A flat rates applied to customers work. Changes in Government salaries and fringe benefits, currency exchange rates, new policy requirements, organizational restructuring such as the European drawdown, or events such as a Congressionally-directed moratorium on new construction also can impact construction S&A flat rates.

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Management Policy for Military Programs - KEY INFORMATION

Decisions on construction S&A flat rate changes are normally made not later than 1 September each year and are communicated to all USACE organizations as well as to the headquarters of our military customers.

Any S&A rate changes are also posted on the USACE headquarters homepage at <http://www.hq.usace.army.mil/cemp/c/cemp-c.htm>.

There are currently six different construction S&A flat rates: three which reflect the *type of work* (e.g., MILCON, O&M, Defense Environmental Restoration) and three which reflect *work location* (CONUS and OCONUS). The CONUS rates apply to the 48 continental states plus the District of Columbia; OCONUS rates cover foreign countries, Alaska, Hawaii, U.S. possessions and territories. Construction S&A rates for OCONUS are higher because of higher personnel/housing/travel/operational costs associated with these locations.

5. USACE has worked hard to reduce its construction management costs while improving the effectiveness of its construction management services. For example, the FY96 MILCON S&A rate reduction represented a 5% reduction in cost and the FY97 O&M S&A rate reduction represents a cost reduction of 6% for OCONUS customers and a 13% reduction for CONUS customers. Current and previous S&A flat rates are:

CONUS				OCONUS			
	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>		<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>
o MILCON projects:	6.0%	5.7%	5.7%	o MILCON projects:	6.5%	6.5%	6.5%
o O&M projects:	7.5%	7.0%	6.5%	o O&M projects:	8.5%	8.5%	8.0%
o HTRW projects:	8.0%	8.0%	8.0%	o HTRW projects:	8.5%	8.5%	8.5%

Notes : MILCON - Military Construction

O&M - Operations & Maintenance

HTRW - Hazardous, Toxic, Radioactive Waste (environmental) (excluding Superfund)

6. Construction projects and their associated contracts are often complex, and involve a wide range of designers, builders, activities and materials. The construction process is highly susceptible to unknowns in the areas of underground conditions, weather, and environmental conditions or regulations. Facilities often involve very significant costs in their initial construction and over their life cycle. The completed facility is often the culmination of a long period of planning, programming, design, contracting and construction activities. And most importantly, the facility often plays a critical role in the success of the customers mission accomplishment. All these reasons and more are why USACE believes construction management services are so important to our customers, and why a S&A flat rate structure plays an important role in their and our success.

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